



**INTERIM FINANCIAL REPORT**

**SEPTEMBER 30, 2011**

## **MDN INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**(FOR THE PERIOD ENDED SEPTEMBER 30, 2011)**

#### **SCOPE OF MANAGEMENT'S FINANCIAL ANALYSIS**

The following analysis should be read in conjunction with the financial statements of MDN Inc. (the "Company" or "MDN") and the accompanying notes to the financial statements for the three-month periods ended September 30<sup>th</sup>, 2011 and 2010. The reader should also refer to the audited annual financial statements as at December 31, 2010, including the section describing the risks and uncertainties. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board. Comparative information included in the September 30, 2011 interim financial statements and in this MD&A has been restated in accordance with IFRS.

#### **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This Management Discussion and Analysis was prepared as of November 4<sup>th</sup>, 2011, and complies with Rule 51-102A of the Canadian Securities Administrators on continuous disclosure. This analysis is a supplement to the Company's unaudited interim financial statements for the three-month period ended September 30, 2011, and is intended to help the reader understand and assess the material changes and trends affecting the Company's results and financial position. It represents the view of management on the Company's ongoing activities and its current and past financial results and presents an overview of activities planned for the coming months. The Company regularly discloses additional information through press releases and financial statements available on the Company's website at [www.mdn-mines.com](http://www.mdn-mines.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **NATURE OF OPERATIONS**

The business of the Company consists of acquiring, exploring and developing mining properties. In the context of realizing its objectives, the Company is likely to sign various agreements specific to the mining industry, such as the purchase and options to purchase mining claim agreements as well as joint venture agreements. Under a joint venture agreement with African Barrick Gold, MDN holds a 30% interest in the Tulawaka gold mine. It also carries on exploration on other mining properties, but has not yet determined whether these other properties contain economically viable mineral assets.

The Company also holds interests in properties located in the following areas:

Tanzania, East Africa: MDN is involved in various gold exploration projects totalling 757 km<sup>2</sup> in the area of Lake Victoria Goldfield, as well as in a joint venture with African Barrick Gold, ABG 70% and MDN 30%, in the Tulawaka mine and its adjacent permits.

Quebec: Le Tac, Lac Shortt, Lespérance and MCGold in the Chibougamau area, and Isle-Dieu in the Matagami area. MDN is also preparing a feasibility study for the Crevier project in Lac-St-Jean, controlled at 72.5%.

### **THIRD QUARTER 2011 HIGHLIGHTS**

#### **MDN**

- The Company's revenues net of financial expenses for the quarter amounted to \$3,574 million including \$3,564 million from the available cash declared at the Tulawaka mine, payable under the terms of the joint venture agreement.
- The Company recorded a net gain of \$1,984 million or \$0.020 per share attributable to its shareholders, compared to a net loss of \$494,000 or \$0.005 per share for the same period in 2010. The change from the corresponding period in 2010 was attributable to the available cash receivable from the Tulawaka mine.
- The Crevier project feasibility study continued throughout the third quarter. Work essentially focused on metallurgy.
- A drilling program began on the Ikungu project in the first quarter to pursue exploration on the east and west extensions of this mineralized structure. The Ikungu mineralized structure has now been traced over more than 4 km. The second part of the drilling program began in the second quarter and continued in the third quarter, with diamond drilling aimed at increasing confidence in the continuity of the mineralized zones.
- Mapping and sampling work took place on the Samaqua property, which lies to the south of the Crevier property.

#### **TULAWAKA**

- The Tulawaka gold mine in Tanzania produced 20,160 ounces of gold at an average milled grade of 6.8 g/t of gold and a 96.0% average mill recovery for the period ended September 30, 2011. Production for the same period in 2010 was 15,646 ounces of gold at an average milled grade of 4.1 g/t of gold. This significant increase was due to higher production from the underground operation and a better ore grade.
- In the third quarter of 2011, the underground Tulawaka gold mine generated 55,950 tonnes grading 10.7 g/t, compared to underground production of 42,300 tonnes grading an average of 8.7 g/t gold for the same period in 2010. This increase in production was the result of investments in 2010 to increase the general efficiency of the underground mine.
- Total cash costs to produce one ounce of gold were US \$749, unchanged from 2010.
- The Tulawaka gold mine sold 20,900 ounces of gold on the spot market at an average price of US \$1,774.

- Mine capital investments for the quarter amounted to \$8.1 million, compared to \$5.3 million for the same period last year.
- During the quarter, Tulawaka continued its drilling program aimed at extending the mine life. The drill results confirmed the extension of the mine life up to the end of 2012, and the program is now continuing to assess the potential for prolonging the mine life beyond 2012.

## **CREVIER PROJECT DEVELOPMENT**

The feasibility study that started in early 2010 is progressing. However, a delay in the preparation and execution of pilot plant testing has caused a delay in the preparation of the overall feasibility study.

The main activities in the third quarter were:

- Metallurgical development
- Search for a strategic partner.

Metallurgical Development:

The main activities in the third quarter focused on metallurgical development and the search for a strategic partner.

Metallurgical development efforts were primarily focused on analysing the results of pilot testing and understanding and explaining the differences between the results of the pilot testing compared to the tests done in the laboratory. Additional work is required to explain the differences in niobium and tantalum recoveries and quantities of reagents used to process the ore.

The additional work done in the third quarter failed to satisfactorily explain the differences seen between laboratory testing done in 2010 by SGS Lakefield and the results obtained from pilot testing produced by the same consultant. Management feels that lower recoveries that vary from test to test and the addition of a substantial quantity of reagents at the flotation stage (resulting in a higher processing cost) need to be explained and corrected before moving on to the final stage of the feasibility study.

SGS, who is in charge of this part of the study, is recommending that a series of tests be added to the work program to better define some of the metallurgical parameters of the ore flotation process. This additional work will cause a delay in the schedule of the feasibility study as well as the overall project. These schedules will therefore be modified over the coming weeks.

One of the objectives of the pilot trial was to produce an enriched niobium/tantalum concentrate. This aspect of the program was a success, and work can now proceed on development of the hydrometallurgy process, the second stage of processing after flotation. SGS Lakefield designed the work plan, approved by MDN, and work has now begun. This part of the program will allow the entire mineral processing circuit to be completed and refinery design and cost evaluation to begin.

### Search for a Strategic Partner

MDN pursued its search for a strategic partner to support the next stages of the Crevier project development, in collaboration with Price Waterhouse Coopers Corporate Finance (PwCCF).

The work done in the third quarter included:

- Preparation of the documentation required to present the Crevier project
- Economic analysis of the project
- Creation of an electronic data room containing all the available data to facilitate analysis and understanding of the project by potential investors.
- Transmission of the documentation to target potential investors.

The PwCCF offices in Asia, North and South America and Europe served as points of contact for the various investors contacted. Many confidentiality agreements were signed with various groups, and interested investors and groups are now reviewing the project.

## **EXPLORATION ACTIVITIES**

In the third quarter of 2011, drilling on the Ikungu property was the main exploration activity in Tanzania.

### **kungu**

The goal of the first part of the 2011 drilling program was to test the east and west extensions of the main structure, which has now been traced over a distance of more than four kilometres.

Drilling resumed on June 14 and ended on August 23. In the third quarter of 2011, MDN did 2,376 metres of diamond drilling and 731 metres of reverse circulation drilling. A total of 2,312 samples were sent to the laboratory.

The purpose of this drilling was to test favorable areas and reduce the spacing between the mineralized blocks intersected by earlier drilling. This additional drilling is necessary to determine the continuity of the mineralization.

The 53 holes drilled so far along a four-kilometre strike length of the Ikungu structure have outlined four zones with higher gold grades and a minimum horizontal thickness of two metres. These zones are formed by the gold-bearing intervals around holes IKD-45 (8.6 g/t Au over 14.78 m) on Section 2230mE, IKD-48 (3.11 g/t Au over 9.50 m) on Section 2830mE and IKD-51 (3.39 g/t Au over 7.05 m) on Section 3190mE.

MDN's recent drilling programs have shown that the Ikungu gold-bearing structure is continuous over a distance of more than four kilometres and shows at least 475 m of vertical continuity, which makes it a major regional structure. This type of regional structure in an Archean-age geological setting is a known feature of the largest gold mining camps in Canada and Australia.

- The intersections with grades of over 3 g/t Au and horizontal widths of at least 2m show a weighted average grade of 7.06 g/t Au over a weighted average width of 4.49 m.
- The structure widens at depth. From surface down to 120 m, the thickness ranges from two to four metres. Below 120 metres, 11 of 18 holes showed thicknesses of more than four metres.
- Holes IKD-45 (8.60 g/t Au over 14.78 m) and IKD-57 (1.31 g/t Au over 18.05 m) identified a lens with a horizontal thickness of over 15 metres
- The gold-bearing structure is continuous over a distance of four kilometres, and shows vertical continuity to a depth of 475 metres. It remains open along strike and at depth.

#### Results for the four mineralized zones

Hole #	Section (m)	From (m)	To (m)	Grade (g/t Au)	Interval (m)	True width (m)
Zone IKD-45	2230E	138.70	158.00	8.60	19.30	14.78
IKD08	1960E	142.17	143.30	10.95	2.02	1.55
IKD-47	1960E	383.00	394.00	2.72	11.00	8.43
IKD-57	2150E	392	412.8	1.31	20.8	18.05

Zone IKD-48	2830E	413.45	425.85	3.11	12.40	9.50
IKD-39	2650E	358.00	362.00	9.63	4.00	3.06
IKD-32	2560E	83.00	86.75	6.51	3.75	2.87
IKD-34	2890E	97.20	99.80	6.63	2.60	2.25
IKD-35	2650E	72.50	81.00	2.79	8.50	7.36

Zone IKD-51	3190E	448.00	457.20	3.39	9.20	7.05
IKD-50	3325E	281.50	287.00	2.83	5.50	4.21
IKD-49	3400E	334.20	340.60	2.27	6.40	4.90

Zone IKD-36	3610E	51.60	56.94	13.22	5.34	4.62
SIK1	3745E	140.84	144.68	24.54	3.84	2.94
SIK8	3745E	206.90	212.81	11.50	5.91	4.53
IKD-37	3745E	276.50	281.70	5.39	5.20	4.50
IKD-44	3745E	401.00	409.00	2.53	8.00	6.13

Possible zone to the east of IKBH-71	4590E	17.0	19.0	13.43	2.00	Undetermined
Possible zone to the west of IKD-59	1570E	214.3	215.17	7.90	0.87	Undetermined

## NIKONGA

MDN carried out initial surface sampling during a mapping program and the results are very encouraging. The eastern sector returned grades ranging from 4 g/t gold to a maximum value of 33 g/t gold.

In all, 29 rock grab samples were collected in the vicinity of two artisanal mining sites. The first site sampled was the main structure, Kezeria which strikes at 290°, where the highest value of 33 g/t gold was obtained. The second site is a subparallel structure striking at 306°, about 500 m to the north of Kezeria. This site returned a maximum grade of 23.7 g/t gold.

Kezeria site:

UTM (E)	UTM (N)	Elevation (m)	Sample #	Description	Au g/t
369641	9621301	1235	109407	Rusty white quartz with disseminated pyrite	4.32
369680	9621295	1231	109408	Grey quartz with black chlorite and/or tourmaline veinlets (1cm)	4.8
369682	9621300	1233	109409	Sheared granite	0.21
369695	9621296	1236	109410	Saprolite of sheared mafic rock	1.21
369731	9621274	1232	109411	Grey quartz with black chlorite and /or tourmaline veinlets (1.5 cm)	<b>33.05</b>
369786	9621278	1235	109413	Grey quartz with pink alteration (granite nearby?)	0.54
369827	9621275	1233	109414	Grey quartz with disseminated pyrite	0.045

Site to the north of Kezeria:

UTM (E)	UTM (N)	Elevation (m)	Sample #	Description	Au g/t
369528	9621749	1231	109415	Grey quartz with pink alteration (granite nearby?)	<b>6.48</b>
369527	9621754	1231	109416	Rusty grey quartz with pyrite	2.78
369510	9621767	1228	109417	Light grey, sugary rusty quartz and pyrite	1.51
369513	9621765	1229	109418	Very rusty light grey quartz and pyrite	0.45
369514	9621760	1236	109419	Rusty light grey quartz	<b>7.18</b>
369513	9621762	1239	109420	Saprolite	<b>23.7</b>
369511	9621763	1238	109421	Grey quartz	0.50
369420	9621823	1236	109422	Saprolite	<b>6.97</b>

The gold grades from the artisanal mine sites coincide with two sub parallel trends of soil geochemistry anomalies with gold values from 50 to 580 ppb. These two trends are 500 metres apart and strike northwest in the same direction as the regional northwest lineament that connects the Nikonga property to the Tulawaka mine, 40 km to the northwest. The lineament can be seen on topographic maps and regional satellite images.

Mapping revealed that the outcropping rocks generally lie above an elevation of 1,230 m where they have been exposed by soil erosion. The bedrock can also be seen in the pits dug by the artisanal miners. The lithologies are clay, sandstone, gravelly sandstone and arkosic sediments to the north, in contact with volcanics or granite to the south. These sedimentary and volcanic rock units have been injected by the gold-bearing quartz veins. The veins are generally grey to black quartz. Gold mineralization has been confirmed in the Kezeria sector and 500 metres to the north in sub parallel structures.

## EXPLORATION IN QUEBEC

### MCGold

The Company has finished planning the next 2011 drilling program and selected the drilling contractor in conjunction with its partner. Work scheduled began on October 17, 2011. The program will test the western extension of the resource over a distance of more than 1 km at regular intervals.

### Samaqua

In June 2011, MDN acquired 175 claims covering 98 km<sup>2</sup> southeast of the Crevier niobium-tantalum project. This new acquisition means that MDN now controls the ground covering a geophysical response similar to the one associated with the Niobec niobium mine. The magnetic signature lies 23 km southeast of the Crevier deposit and 130 km northwest of the Niobec mine.

A prospecting program was carried out in July to (1) examine the possible extensions of the Crevier mineralized dike, and (2) explain the circular geophysical response on the federal magnetic map. A total of 135 outcrops were examined, and 46 samples were collected for geochemical analysis. The major observations were as follows:

- The overburden is widespread and thick, and there are not many outcrops except along the logging roads. These factors limited prospecting.
- Two major rock groups were seen: the foid syenites belonging to the Crevier complex, and the syenite granites seen on Crevier SE and Samaqua.
- Carbonate- and nepheline-type syenite outcrops were found 300 metres south of the latest MDN holes. Grades of 2,274 ppm Nb<sub>2</sub>O<sub>5</sub> and 256 ppm Ta<sub>2</sub>O<sub>5</sub> were obtained. These outcrops indicate that the Crevier dyke containing potentially economic grades extends an additional 300 metres to the SE.
- On the Samaqua and Crevier SE properties, there is a subgroup of generally NW-SE striking syenite-granite dykes richer in Ba, Sr, Zr and RE. The compilation of the Ba grades show a grouping in the vicinity of the magnetic low and along the Crevier dike extension. These dikes could indicate the presence of a nearby alkaline or carbonatite intrusive.
- A sample taken from a gabbro and pyroxenite intrusive proved anomalous in **Cu (3,130 ppm), Au (122 ppb), Pd (379 ppb) and Pt (328 ppb)**. These are mafic to ultramafic rocks that cover a distance of more than one kilometre.

## BUSINESS DEVELOPMENT

MDN remains first and foremost a gold exploration company, and plans to continue developing the Tulawaka mine with African Barrick Gold. On its exploration properties, most of the Tanzanian exploration budget will be allocated to the Ikungu gold property.

MDN will continue with the feasibility study preparation throughout the year, with the goal of obtaining the financial and technical parameters it needs to make a decision on the future of the Crevier project development.

Numerous meetings were held with financial institutions to demonstrate the quality of the Company's exploration properties and the Crevier project, as well as to assess the financing options for the Crevier project construction.

## SUMMARY OF OPERATING RESULTS

<b>For the three months ended September 30</b>	<b>2011</b>	<b>2010</b>
<i>(In thousands of dollars, except for amounts per share)</i>		
Revenues net of financial charges	<b>\$3,574</b>	(\$72)
Administrative expenses	<b>\$818</b>	\$588
Net income (loss) attributable to the shareholders of the company	<b>1,984</b>	(\$494)
Basic and diluted net earnings (loss) per share	<b>\$.020</b>	(\$0.005)
Weighted-average number of shares outstanding (in thousands)	<b>99,976</b>	98,444

### Operating results

MDN's revenues are generated mainly from royalties derived from the production at the Tulawaka gold mine. Underway since 2010, the aggressive exploration program necessary to increase the life of mine continued during the third quarter of 2011 with the investment for new equipment. Subsequently to the above decisions, royalties were not declared in the 2010 third quarter results, the royalties declared for the third quarter of 2011, was \$3,563,568. Other revenues (\$23,588 in 2011 and \$27,285 in 2010), consist of interests income from the Company's various investments. Administrative expenses totalled \$817,982 compared with \$588,456 in 2010. Administrative expenses included management fees of \$180,302 (\$120,133 in 2010) representing 3% of all operating expenses of the Tulawaka project invoiced by the operator; professional fees of \$133,988 (\$116,380 in 2010), increase mainly due IFRS consultation fees coupled with income tax consultation in Tanzania. Stock base compensation of \$3,720 (\$28,563 in 2010), variation due to decrease of the option amortization attributed in 2010, salary costs of \$276,686 (\$233,290 in 2010), increase mainly due to general annual augmentation coupled with the creation of a new position in accounting.

Since the amounts distributed by the Tulawaka gold mine are now recorded as royalties in the income statement, the Company is reporting amortization charges for the cost of exploration

conducted prior to the opening of the mine based on royalties paid; this amount was \$132,695 for the third quarter of 2011 and no amortization was recorded in the third quarter of 2010.

<b>For the nine months ended September 30</b>	<b>2011</b>	<b>2010</b>
<i>(In thousands of dollars, except for amounts per share)</i>		
Revenues net of financial charges	<b>\$4,828</b>	(\$44)
Administrative expenses	<b>\$2,695</b>	\$3,135
Net income (loss) attributable to the shareholders of the company	<b>1,190</b>	(\$3,109)
Basic and diluted net earnings (loss) per share	<b>\$0.011</b>	(\$0.032)

### **Operating results**

MDN's revenues are generated mainly from royalties derived from the production at the Tulawaka gold mine. Underway since 2010, the aggressive exploration program necessary to increase the life of mine continued during the third quarter of 2011 with the investment for new equipment. Subsequently to the above decisions, royalties were not declared for 2010 results, the royalties declared for the nine months ended September 2011, was \$4,520,901. Other revenues (\$138,631 in 2011 and \$98,947 in 2010), consist of interest income from the Company's various investments.

Administrative expenses totalled \$2,694,851 compared with \$3,135,332 in 2010. Administrative expenses included management fees of \$518,516 (\$362,249 in 2010) representing 3% of all operating expenses of the Tulawaka project invoiced by the operator; professional fees of \$515,976 (\$842,877 in 2010), decrease mainly due to the termination of two consulting contracts (advisor to the president and Country Manager in Tanzania), the reclassification of a contractual position into a salaried position, also, in 2010 the company incurred \$133,406 for legal, audit, and communication analysis for the investment in MCI. Stock base compensation of \$22,906 (\$408,309 in 2010), decrease due to the recorded payment in 2010 of stock base compensation in conformity with the long-term incentive plan, salary costs of \$982,676 (\$1,008,521 in 2010) decrease mainly due to record of discounted indemnification in 2010 partly offset by a notice of assessment received from Revenue Quebec for the periods between 2007 and 2010 changing the rates used for the Health and service fund (HSF) in the past representing a charge of \$150,127 coupled with the reclassification of a contractual position into a salaried position and the creation of a new position in accounting. The project development cost was \$27,458 in comparison of \$67,578 in 2010.

Since the amounts distributed by the Tulawaka gold mine are now recorded as royalties in the income statement, the Company is reporting amortization charges for the cost of exploration conducted prior to the opening of the mine based on royalties paid; this amount was \$179,020 in 2011 and no amortization was recorded in 2010.

### **Change in refundable credit on mining duties:**

The Quebec government's Bill 5 has received first reading on May 4, 2011, making it substantively enacted for IFRS purposes on that date. The bill includes proposals to amend the mining duties regime, as announced in the 2010 Quebec budget, for expenses incurred after March 30, 2010. As a result, the mining duties rate has increased from 12% to 16% after March 30, 2010, while credit on mining duties rates has decreased from 12% to 7% from March 30,

2010 to December 31, 2010 and has increased to 7.5% from January 1, 2011 to December 31, 2011.

During the quarter ending June 30, 2011, these changes will result in an increase in deferred tax liabilities and deferred tax expenses of \$319,644 and a decrease in mining taxes receivable and current taxes of \$117,731.

### **Net Income**

For the nine month period ended September 30, 2011, the Company recorded a net income attributable to Owners of the Company of \$1,189,695 or \$0.01 per share compared to net loss of \$3,109,412 or \$0.032 per share for the same period in 2010.

The net income per share is based on weighted-average number of 99,465,266 common shares outstanding as at September 30, 2011, compared with a weighted-average number of 96,897,000 common shares outstanding as at September 30, 2010.

### **Future results**

The Company's future results will be influenced mainly by the amount of royalty income received from its 30% participation in the Tulawaka gold mine and from its exploration programs.

<b>Financial position</b>	<i>September 30</i> <b>2011</b>	<i>December 31</i> 2010
<i>(In thousands of dollars)</i>		
Cash and cash equivalents	<b>\$1,466</b>	\$4,975
Investments	<b>\$3,787</b>	\$5,739
Mining taxes receivable	<b>\$238</b>	\$ 346
Accounts receivables	<b>\$5,958</b>	\$1,660
Exploration and evaluation assets	<b>\$36,171</b>	\$31,687
Total assets	<b>\$49,715</b>	\$47,272
Share Capital	<b>\$63,449</b>	\$62,824
Total equity attributable to equity holders of the Company	<b>\$44,925</b>	\$42,594

## **LIQUIDITY AND FINANCIAL POSITION**

### **Cash, cash equivalents and term deposits**

As at September 30, 2011, the Company's cash position, consisting of cash, investments and term deposits, amounted to \$5,252,752 compared with \$10,713,786 as at December 31, 2010. This decrease is mainly due to the investment in exploration and evaluation assets.

### **Mining taxes receivables**

As of September 30, 2011, tax credit receivables amounted to \$237,944 compared with \$346,004 as at December 31, 2010. The mining taxes receivable are mainly attributable to the Crevier project.

### **Accounts receivables**

As of September 30, 2011, accounts receivable amounted to \$5,958,241 mainly due to Royalties receivable from Pangea Goldfield (\$3,563,568), resources credit (\$1,472,051) coupled with receivable interests on investments (\$38,490), \$52,484 for GST and QST reimbursements, and \$707,042 for Tanzanian sales tax reimbursements.

### **Mining properties**

During the three-month period ended September 30, 2011, MDN made a payment of \$23,620 in relation to the Baraka property agreement.

### **Exploration and evaluation assets**

During the three-month period ended September 30, 2011, the Company increase by \$1,327,536 his exploration and evaluation assets. Of this amount, \$1,215,450 was spent for properties in Tanzania, mainly for the Ikungu property. The Company also expensed \$112,086 in the province of Quebec, mainly for the Crevier property.

## **Assets, equity attributable to equity holders of the Company and liquidity**

Total assets amount to \$49,714,665 as at September 30, 2011, compared to \$47,272,468 as of December 31, 2010.

Equity attributable to equity holders of the Company amounted to \$44,925,665 as of September 30, 2011, compared to \$42,594,241 as of December 31, 2010, with the increase being attributable to the income of the period.

The Company's liquidity, short-term and long-term, is sufficient for the payment of administrative expenses, the financing of exploration activities and to support the Company's growth plan.

## **LIQUIDITY AND FINANCIAL POSITION**

### **Equity**

During the nine month period ended September 30, 2011, following the decision of the Board of Directors to approve the issuance of 1,531,863 common shares for the acquisition of an additional interest of 5% in CMI on March 16, 2011, the Company's outstanding shares number is 99,975,887 compared with 98,444,024 as of December 31, 2010.

### **Liquidity needs for the current financial year**

Gold production at the Tulawaka gold mine started in March 2005. Based on the operation of the mining property and the available liquidities based on the JVA, the Company receives a 30% share of surplus distributed. For the current financial year ending on December 31, 2010, the Company's liquidity needs are estimated at \$9,000,000, which includes fixed costs and exploration expenses in Tanzania, in Québec and for the investment in Crevier Minerals Inc. Notwithstanding the future distribution of royalties from the mine in 2011, the Company's available liquidity exceeds the amount required to meet its financial needs.

## **RISKS AND UNCERTAINTIES**

The Company's principal revenue is derived from the operation of the Tulawaka gold mine, which has been in operation since March 2005. The lifespan of the mine is linked to the exploitable gold-bearing reserves. Exploration is underway at Tulawaka to extend the mine's life. As of September 30, 2011, the mine operator has yet to define the lifespan of the mine in the context of underground development. Presently the life of mine is estimated to last until the end of 2012. A final assessment is expected by the end of this year.

Except for the Company's investment in MCI, which is at the evaluation phase, all of the Company's other resource properties are exploration properties. The Company's long-term profitability depends on the costs and success of its evaluation, exploration and development programs, which may also be influenced by different factors. Among these factors, one must consider the attributes of future mineral deposits, including the quantity and quality of the resources, the development costs of a production infrastructure, financing costs, the market value

of gold, and the competitive nature of the industry.

Substantial investments are necessary to carry out evaluation and exploration programs and to develop reserves. In the absence of cash flows generated by mining operations, the Company depends on capital markets to fund its exploration and development activities. Market conditions and other unforeseen events could affect the Company's ability to obtain the funds required for its development.

### **Mineral prices**

Factors that influence the market value of gold, base metals and any other mineral discovered are outside of the Company's control. Resource prices can fluctuate widely, and have done so in recent years. The impact of these factors cannot be accurately predicted.

### **Uninsured risks**

The Company may become subject to claims arising from natural phenomena, pollution or other risks against which it cannot or chooses not to insure itself due to the high cost of premiums or for other reasons. Payment of such claims would decrease and could eliminate funds available for exploration and mining activities. Furthermore, as the Company carries on business in foreign countries, it is subject to governmental decisions and policies.

### **Related party transactions**

In relation with the acquisition of CMI, the Company paid \$459,000 and issued 1,488,790 shares to its actual president and to a director in consideration of the 600,000 shares they held in CMI (representing 15% of the outstanding shares of CMI). Furthermore, during the period, the Company paid professional fees of \$18,000 to the same director.

These transactions, made in the normal course of business, were measured at the exchange amount, which is the amount established and agreed to by the parties.

Since the third quarter of 2010, following the issuance of shares of the long-term incentive plan, the Company provided a loan to two of its key managers to the amount of \$62,400. This loan, which carries a rate of 1% per year, is reimbursable at all times either in part or in full and will mature in December 31, 2012. If the borrower ceases to be an employee of the Company, the loan becomes due immediately.

### **Eventuality**

#### **Communication with Tanzania Revenue Authority:**

On May 10, 2011, the Company received a request from the Tanzania Revenue Authority ("TRA") to file certain documents in respect of the Tulawaka mine operation and the legal structure of the Company's share in the royalties from this mining property. This request included also preliminary calculations made by TRA presuming that the Company owed substantial amounts to the Tanzanian government related to corporate taxes on gold sales from the Tulawaka mining property and other various withholding taxes for the fiscal years 2004 to 2010. The

Company subsequently sent the requested information to TRA and discussions are presently in progress in order to clarify this situation. Pursuant to the Joint Venture Agreement between the Company, Pangea Goldfields Inc. and Pangea Minerals Limited (the "Operator"), the Operator cannot distribute the cash flow from the Tulawaka mine before first, paying taxes to the TRA. The Company has obtained a confirmation from the Operator that since the beginning of the production at the Tulawaka Mine in 2004, the Operator has paid all taxes due to the TRA.

Futhermore in August 2011, the operator`s s auditors have confirmed to the TRA the above statement. Meetings between the different stakeholders are scheduled during the month of November 2011.

No provisions have been recorded in the Company`s financial statements as at March 31, 2011 as management is in the opinion that amounts included in this communication are not founded and that the Company does not owe any taxes to the TRA in respect of these mining operations. Any amounts that may become payable related to this contingency could have a negative impact on the Company.

### **Financial instruments and financial risk management:**

#### **Financial instruments**

##### **(a) Fair value:**

Certain of the Group's accounting policies and disclosures require the determination of fair value. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

Accounts receivable and trade accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

The fair value of the temporary investments, long-term investments and other long-term liability is based on quoted market price when applicable or obtained by discounting future cash flows or forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments available on capital markets. The following table summarizes the book value and fair value of those instruments:

	Septembre 30 2011	September 30 2011	December 31 2010	December 31 2010
	Book value	Fair value	Book value	Fair value
Temporary investments	\$3,786,630	\$3,789,513	\$4,406,886	\$4,406,886
Long-term investments	-	-	1,332,163	1,332,163
Other long-term liability	174,579	174,579	226,375	226,375

The input level used by the Company to measure the fair value of its financial assets at fair value through profit or loss is Level 3.

*The fair value of these instruments was determined using a Black-Scholes model as well as discounted future cash flows.*

#### *Financial risk management*

##### *(b) Foreign exchange risk:*

*The Company receives royalty revenues and incurs prospecting and evaluation costs as well as certain other fees in US dollars, and is consequently exposed to foreign exchange risk.*

The balances denominated in foreign currency are as follows:

	September 30, 2011	December 31, 2010
	\$ US	\$ US
Cash	124,870	176,492
Accounts receivable	4,074,232	-
Trase accounts payable and accrued liabilities	812,746	337,827

As at September 30, 2011, if the exchange rate (CA\$/US\$) had increased or decreased by 5%, the total results would have been higher or lower by approximately \$250,060 (approximately \$25,720 as at December 31, 2010).

##### (c) Credit risk:

The Company invests its cash and cash equivalents and its investments in fully guaranteed high quality titles issued by Canadian financial institutions. Also, the Company invests a portion of its cash and cash equivalents in guaranteed investment certificates and in bonds of public companies in order to reduce its exposure to credit risk.

##### (d) Liquidity risk:

The Company manages its liquidity risk by using budgets allowing determining the necessary funds required to meet its exploration plans. Moreover, the Company makes sure that the working capital is sufficient to meet its current obligations.

##### (d) Liquidity risk (continued):

As at September 30, 2011, the Company has accounts receivable of \$5,958,241 and trade accounts payable and accrued liabilities of \$1,397,321 coming to maturity within the next twelve months.

As at September 30, 2011, the Company was holding cash and cash equivalents and temporary investments totaling \$5,252,752. Given the Company's available liquidities compared with the timing of the payments of liabilities, management assesses that the Company's liquidity risk is low.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company holds the majority of its cash and cash equivalent balance in interest-bearing accounts which are therefore only exposed to future cash flow fluctuations coming from changes in market interest rates. Temporary investments and long-term investments consist of bonds and guaranteed investment certificates and are classified as loans and receivables. A fluctuation of 100 basis points on market interest rate would not have an impact on the financial results of the Company.

## **DIVIDEND POLICY**

The Company has neither declared nor paid any dividends on its common shares since incorporation. Any decision to pay dividends to the Company's common shareholders will be made by the Board of Directors based on its assessment of the Company's financial position, taking into account the financial requirements to ensure its future growth and other factors that the Board might deem pertinent under the circumstances.

## **International Financial Reporting Standards**

Effective January 1, 2011, International Financial Standards ("IFRS") became Canadian GAAP ("CDN GAAP") for publicly accountable enterprises. As a result, MDN Inc. interim financial statements for the first quarter of 2011 are reported in accordance with IFRS, with comparative information for 2010 restated.

The Company developed and executed a changeover plan in order to begin reporting in accordance with IFRS from January 1, 2011. The changeover plan included an assessment phase, a design phase, and an implementation phase, each of which set out activities to be performed over the life of the project, resulting in the Company's first interim reporting under IFRS for the first quarter of 2011. The implementation phase will continue to culminate in the preparation of our financial reporting under IFRS in 2011.

Throughout 2011, we will continue to execute the final phase of our changeover plan. Activities in this respect include continuing to execute business process and internal control changes, testing internal controls impacted by our IFRS changeover, monitoring accounting and regulatory developments and evaluating impacts on our financial reporting, and continuing to fulfill presentation and reporting requirements.

### **Explanation of transition to IFRS:**

For this note, the term “Canadian GAAP” denotes Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

As stated in note 2, the condensed consolidated interim financial statements of the Group have been prepared in accordance with IFRS.

IFRS accounting policies have been applied after establishing the interim financial statements for the three-month period and nine-month period ending September 30, 2011, with information comparing to the interim financial statements for the three-month and nine-month periods ending September 30, 2010.

The notes below explain the impact that the transition from Canadian GAAP to IFRS has had on the Group’s financial situation, financial performance and cash flow.

### **Material adjustments to the statement of cash flows for 2010**

Interests received have been presented separately in the body of the Statement of Cash Flows, within operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

### **Notes to the reconciliations**

#### **(a) Acquisition of CMI:**

As explained in note 4, on February 16, 2010, the Company obtained the control of CMI. Under Canadian GAAP, CMI was not considered to be a business and this acquisition was not accounted for as a business combination, but rather as an acquisition of net assets. However, since the Company took control over CMI, this latter was considered a subsidiary whose assets and liabilities were consolidated. The accounting treatment is compliant with IFRS, except for the following two differences:

- Non-controlling interests were accounted for at the pro rata share of the net book value of CMI’s net assets while under IFRS they are accounted for at their fair value at the date on which the Company obtained control of CMI. This difference resulted in an increase in non-controlling interest of \$1,518,089, the counterpart being an increase in mining properties for the same amount.
- Deferred tax liabilities were recorded under Canadian GAAP as a result of this transaction, while under IFRS a deferred tax liability (asset) is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. Therefore, the deferred tax liabilities of \$1,866,601 recorded under Canadian GAAP were reversed under IFRS with a corresponding decrease in mining properties.

(b) Classification of other financial instruments:

Cash, cash equivalents, temporary investments and long-term investments do not meet the criteria for the fair value through profit and loss designation under IFRS, as they are not managed on a fair value basis but yield to maturity basis, and as they are not traded on an active market. Under Canadian GAAP, they met the classification of financial assets designated as held for trading.

As a result of the IFRS, cash, cash equivalents, temporary investments and long-term investments are classified as loans and receivables. With regard to cash and cash equivalents, this change in classification does not have a financial impact on the consolidated financial statements as the fair value of those instruments approximates cost; therefore, this is only a disclosure difference.

With regard to temporary investments and long-term investments, this change resulted in an immaterial impact. However, reclassification entries were recorded in the condensed consolidated interim statements of financial position and the condensed consolidated interim statements of comprehensive income.

Interests receivable under Canadian GAAP were presented in temporary investments in the amounts of \$55,389 as at September 30, 2010. Under IFRS, this amount was reclassified in accounts receivable.

The differences in fair value of items held for trading with ending balances of \$5,730 and \$35,248 for the three-month and nine-month periods ending September 30, 2010, respectively, had been recorded in accordance with Canadian GAAP. In accordance with IFRS, these amounts have been reclassified against the net finance expense (income) in the condensed consolidated interim statement of comprehensive income.

(c) Change of functional currency of MDN Tanzania Ltd.:

The foreign currency adjustments related to an integrated foreign operation under Canadian GAAP. IFRS do not distinguish between integrated and self-sustaining foreign operations and the current rate method is required to be applied to all entities whose functional currency is different from the presentation currency, resulting in an adjustment on transition to IFRS

As at September 30, 2010, this change resulted in a currency translation account of \$440,735, recorded in accumulated other comprehensive income. Losses of \$355,619 and \$167,676 were recorded in other comprehensive income for the three-month period and nine-month period ended September 30, 2010, respectively.

Also, losses (gains) on foreign exchange of (\$23,226) and (\$25,882) for each three-month and nine-month periods ending September 30, 2010, respectively, were recorded from finance expense to other comprehensive income. This only concerns adjustments that had an impact on the deficit.

The assets as at September 30, 2010 were adjusted as follows:

Mining properties	\$63,220
Exploration and evaluation assets	(474,430)
Équipement	(3,644)
	<hr/>
	\$(414,854)
	<hr/>

(d) Reclassification in the statement of comprehensive income:

Interest received on bank accounts, bank charges, accretion of the other liability and foreign exchange losses were reclassified within the finance income and expense line items under IFRS, while they were presented under revenue, administrative expenses and other separate line items under Canadian GAAP.

### **IFRS accounting policies**

Our significant accounting policies under IFRS are disclosed in our interim financial statements for the first quarter of 2011, and resulting accounting changes are highlighted in our reconciliations from previous CDN GAAP reporting. The exemptions from full retrospective application elected by the Company in accordance with IFRS 1 “First time adoption of International Financial Reporting Standards” are also disclosed in our interim financial statements for the first quarter of 2011.

### **Information disclosure controls and procedure**

The president and the chief financial officer have designed or supervised the design of disclosure controls and procedures to provide reasonable assurance that the material information relating to the Company is made known to them, particularly during the period in which the interim and annual documents are prepared. Company management, including the President, the Chief Financial Officer, participated in an assessment of the effectiveness of information disclosure controls and procedures since September 30, 2011. Based on this assessment, the President and the Chief Financial Officer have concluded that such controls and procedures were not effective for the reasons enunciate on the following paragraph.

Companies of small capitalization such as MDN do not necessarily have all the technical knowhow related to financial information, in particular in the interpretation of new chapters of the CICA handbook and in the extreme technical complexity of certain transactions which require an in-depth knowledge of generally recognised accounting principles of Canada. Therefore, some transactions could be incorrectly reported resulting in a significant discrepancy in the financial statements of the Company.

To address this risk, the Company hires and takes advice from accounting specialists to help in the selection and interpretation of these uncommon transactions.

The management of the Company realized that this control was not efficient during the preparation of the unaudited financial statements of the first quarter of 2010, specifically in the selection and application of the new chapter 1582 of the CICA handbook in relation to the Company amalgamation related to the acquisition of Les Minéraux Creviers Inc. and in the interpretation of a contract signed with an ex- employee of the Company. The Company therefore had the obligation to amend and restate the financial statements of the first quarter of 2010.

Subsequent to the period ending March 31<sup>st</sup> 2010, management of the Company brought necessary improvements to control processes in order to allow efficient controls in the future.

### **Subsequent Events**

After the end of the quarter, the company has undertaken steps to raise flow-through shares throughout a private placement for a maximum value of \$600,000.

### **Outlook**

In 2011, MDN will continue to operate in all its key activity sectors. Most of the Tulawaka mine production will come from the underground mine and the low-grade surface stockpile. A major underground exploration program is also underway to extend the mine life by renewing the reserves already mined.

MDN will remain active on its own exploration programs in Tanzania, focusing most of its efforts on the Ikungu property. In Canada, efforts will primarily be focused on the Crevier project feasibility study and drilling work currently being planned for the MCGold property.

The technical team will be pursuing business opportunities throughout the year, continuing to seek out advanced projects with potential for rapid development, as well as acquisitions with the potential to enhance the quality of our exploration property portfolio.

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Serge Bureau

Yves Therrien, CMA

Chairman & CEO

Vice President, Finance

Montreal, Canada  
November 4, 2011

## FINANCIAL SUMMARIES

The tables below provide a summary of the main financial information on the Company for the last three years and for the last eight quarters.

### FOR THE LAST THREE YEARS

	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<i>9 months</i>	<i>12 months</i>	<i>12 months</i>
Total revenue net of finance expenses	<b>\$4,828,303</b>	\$134,367	\$7,109,664
Net income (loss)	<b>\$1,189,695</b>	(\$3,441,896)	\$824,029
Net income (loss) per share	<b>\$0.010</b>	(\$0.035)	\$0.09
Addition on Exploration and evaluation assets	<b>\$4,473,186</b>	\$6,397,268	\$2,716,069
Accounts receivable & Mining tax receivables	<b>\$6,196,185</b>	\$2,005,826	\$3,358,402
Total assets	<b>\$49,714,665</b>	\$47,272,467	\$45,245,826
<b>Shareholders' equity</b>			
Total	<b>\$46,840,113</b>	\$44,971,578	\$44,566,803

### FOR THE LAST EIGHT QUARTERS

	<b>2011</b>			
	<i>1<sup>st</sup> quarter</i>	<i>2<sup>nd</sup> quarter</i>	<i>3<sup>rd</sup> quarter</i>	
Total revenue net of finance expenses	\$(18,155)	\$1,272,122	\$3,574,336	
Net income (loss)	(\$639,637)	(\$154,462)	\$1,983,794	
Net income (loss) per share	(0.006)	(0,002)	\$0.020	
	<b>2010</b>			
	<i>1<sup>st</sup> quarter</i>	<i>2<sup>nd</sup> quarter</i>	<i>3<sup>rd</sup> quarter</i>	<i>4<sup>th</sup> quarter</i>
Total revenue	\$33,347	\$38,315	\$27,285	35,420
Net income (loss)	(1,149,072)	(729,878)	(\$500,610)	(\$1,062,336)
Net income (loss) per share	(\$0.12)	(\$0.008)	(\$0.005)	(\$0.020)
	<b>2009</b>			
				<i>4<sup>th</sup> quarter</i>
Total revenue				(\$445,506)
Net income (loss)				(\$1,861,164)
Net income (loss) per share				(\$0.020)

Note : 2009 are expressed on Canadian GAAP

Condensed Consolidated Interim Financial Statements of  
(Unaudited)

## **MDN INC.**

Periods ended September 30, 2011 and 2010

# **MDN INC.**

Condensed Consolidated Interim Financial Statements  
(Unaudited)

Periods ended September 30, 2011 and 2010

## **Financial Statements**

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# MDN INC.

## Condensed Consolidated Interim Statements of Financial Position (Unaudited)

September 30, 2011 and December 31, 2010

	September 30, 2011	December 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,466,122	\$ 4,974,737
Temporary investments (note 5)	3,786,630	4,406,886
Accounts receivable	5,958,241	1,659,822
Mining taxes receivable	237,944	346,004
Prepaid expenses	25,376	31,473
Total current assets	11,474,313	11,418,922
Non-current assets:		
Long-term investments (note 6)	–	1,332,163
Mining properties (note 7)	10,149,490	10,040,154
Exploration and evaluation assets (note 8)	26,021,263	21,646,987
Equipment	50,419	38,222
Intangible asset	–	179,020
Deferred tax assets	2,019,180	2,617,000
Total non-current assets	38,240,352	35,853,546
Total assets	\$ 49,714,665	\$ 47,272,468
<b>Liabilities and Equity</b>		
Current liabilities:		
Trade accounts payable and accrued liabilities	\$ 1,397,321	\$ 1,228,514
Total current liabilities	1,397,321	1,228,514
Non-current liabilities:		
Other long-term liability	174,579	226,375
Deferred tax liabilities	1,302,652	846,000
Total non-current liabilities	1,477,231	1,072,375
Equity:		
Share capital (note 9)	63,448,630	62,823,630
Contributed surplus	6,538,245	6,515,339
Accumulated other comprehensive income	(55,605)	(810,573)
Deficit	(25,005,934)	(25,934,155)
Total equity attributable to equity holders of the Company	44,925,336	42,594,241
Non-controlling interests	1,914,777	2,377,338
Total equity	46,840,113	44,971,579
Contingencies (note 16)		
Total liabilities and equity	\$ 49,714,665	\$ 47,272,468

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

## Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

Periods ended September 30, 2011 and 2010

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue:				
Operating royalties from the Tulawaka mine	\$ 3,563,568	\$ –	\$ 4,751,397	\$ –
Administrative expenses (note 11)	817,982	588,456	2,694,851	3,135,332
Income (loss) before net finance expense and income taxes	2,745,586	(588,456)	2,056,546	(3,135,332)
Net finance income (note 12):				
Finance income	(23,588)	(27,285)	(138,631)	(98,947)
Finance expense	12,820	99,697	61,725	142,827
	(10,768)	72,412	(76,906)	43,880
Income (loss) before income taxes	2,756,354	(660,868)	2,133,452	(3,179,212)
Income tax (recovery):				
Current taxes (recoverable)	(5,153)	–	(11,681)	–
Deferred taxes	781,584	(157,602)	1,054,473	(27,313)
	776,431	(157,602)	1,042,792	(27,313)
Net income (net loss)	1,979,923	(503,266)	1,090,660	(3,151,899)
Other comprehensive income for the period:				
(Loss) gain on foreign currency translation differences of foreign operations	1,030,038	(355,619)	754,968	(167,676)
Net comprehensive income for the period	\$ 3,009,961	\$ (858,885)	\$ 1,845,628	\$ (3,319,575)
Net income (net loss) attributable to:				
Owners of the Company	\$ 1,983,794	\$ (493,679)	\$ 1,189,695	\$ (3,109,412)
Non-controlling interests	(3,871)	(9,587)	(99,035)	(42,487)
Total comprehensive income (loss) attributable to:				
Owners of the Company	\$ 3,013,832	\$ (849,298)	\$ 1,944,663	\$ (3,277,088)
Non-controlling interests	(3,871)	(9,587)	(99,035)	(42,487)
Basic and fully diluted net income (net loss) per share	\$ 0.020	\$ (0.005)	\$ 0.010	\$ (0.032)

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

## Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

Periods ended September 30, 2011 and 2010

	Number of shares outstanding	Share capital	Number of warrants outstanding	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity attributable to equity holders	Non-controlling interests	Total equity
Balance, January 1, 2010	93,775,913	\$ 60,505,590	300,000	\$ 74,219	\$ 6,569,228	\$ (273,059)	\$ (22,582,234)	\$ 44,293,744	\$ -	\$ 44,293,744
Shares issued	3,349,777	1,641,391	-	-	-	-	-	1,641,391	-	1,641,391
Share issuance costs	-	-	-	-	-	-	(3,956)	(3,956)	-	(3,956)
Share-based payments	1,318,334	676,649	-	-	(268,340)	-	-	408,309	-	408,309
Acquisition of a participation giving the control of CMI (note 4)	-	-	-	-	-	-	-	-	2,471,268	2,471,268
Foreign currency translation differences of foreign operations	-	-	-	-	-	(167,676)	-	(167,676)	-	(167,676)
Net loss	-	-	-	-	-	-	(3,109,412)	(3,109,412)	(42,487)	(3,151,899)
<b>Balance, September 30, 2010</b>	<b>98,444,024</b>	<b>\$ 62,823,630</b>	<b>300,000</b>	<b>\$ 74,219</b>	<b>\$ 6,300,888</b>	<b>\$ (440,735)</b>	<b>\$ (25,695,602)</b>	<b>\$ 43,062,400</b>	<b>\$ 2,428,781</b>	<b>\$ 45,491,181</b>
Balance, January 1, 2010	93,775,913	\$ 60,505,590	300,000	\$ 74,219	\$ 6,569,228	\$ (273,059)	\$ (22,582,234)	\$ 44,293,744	\$ -	\$ 44,293,744
Shares issued	3,349,777	1,641,391	-	-	-	-	-	1,641,391	-	1,641,391
Share issuance costs	-	-	-	-	-	-	(3,956)	(3,956)	-	(3,956)
Share-based payments	1,318,334	676,649	-	-	(128,108)	-	-	548,541	-	548,541
Acquisition of a participation giving the control of CMI (note 4)	-	-	-	-	-	-	-	-	2,471,268	2,471,268
Foreign currency translation differences of foreign operations	-	-	-	-	-	(537,514)	-	(537,514)	-	(537,514)
Warrants expired	-	-	(300,000)	(74,219)	74,219	-	-	-	-	-
Net loss	-	-	-	-	-	-	(3,347,965)	(3,347,965)	(93,930)	(3,441,895)
<b>Balance, December 31, 2010</b>	<b>98,444,024</b>	<b>\$ 62,823,630</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 6,515,339</b>	<b>\$ (810,573)</b>	<b>\$ (25,934,155)</b>	<b>\$ 42,594,241</b>	<b>\$ 2,377,338</b>	<b>\$ 44,971,579</b>
Balance, January 1, 2011	98,444,024	\$ 62,823,630	-	\$ -	\$ 6,515,339	\$ (810,573)	\$ (25,934,155)	\$ 42,594,241	\$ 2,377,338	\$ 44,971,579
Acquisition of an additional participation in CMI (note 4)	1,531,863	625,000	-	-	-	-	(261,474)	363,526	(363,526)	-
Share-based payments	-	-	-	-	22,906	-	-	22,906	-	22,906
Foreign currency translation differences of foreign operations	-	-	-	-	-	754,968	-	754,968	-	754,968
Net gain (net loss)	-	-	-	-	-	-	1,189,695	1,189,695	(99,035)	1,090,660
<b>Balance, September 30, 2011</b>	<b>99,975,887</b>	<b>\$ 63,448,630</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 6,538,245</b>	<b>\$ (55,605)</b>	<b>\$ (25,005,934)</b>	<b>\$ 44,925,336</b>	<b>\$ 1,914,777</b>	<b>\$ 46,840,113</b>

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

## Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

Periods ended September 30, 2011 and 2010

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Cash flows from operating activities:				
Gain (loss)	\$ 1,979,923	\$ (503,266)	\$ 1,090,660	\$ (3,151,899)
Adjustments for:				
Share-based payments	3,720	28,563	22,906	408,309
Deferred taxes	781,584	(157,602)	1,054,473	(27,313)
Depreciation of equipment	2,405	1,435	5,336	4,239
Depreciation of intangible asset	132,695	—	179,020	—
Accretion expense related to other long-term liability	7,307	8,971	23,204	28,076
Interest income (note 12)	(17,583)	(9,187)	(123,718)	(80,849)
(Payment) severance benefit expense presented in other long-term liability	(25,000)	(75,000)	(75,000)	314,729
Change in non-cash working capital items (note 15)	(2,300,982)	903,075	(3,172,382)	3,427,139
Interest received	25,137	65,342	187,467	98,947
	589,206	262,331	(808,034)	1,021,378
Cash flows from financing activities:				
Share issuance costs	—	—	—	(4,955)
	—	—	—	(4,955)
Cash flows from investing activities:				
Acquisition of a participation giving the control of CMI, net of cash acquired (note 4)	—	—	—	(1,127,500)
Investment in a company under significant influence (note 4)	—	—	—	(441,432)
Acquisition of investments	—	(1,440,217)	(662,320)	(2,959,644)
Disposal of investments	842,645	1,000,000	2,571,260	2,800,000
Acquisition of equipment	—	(5,339)	(16,673)	(5,339)
Additions to mining properties	(23,620)	(126,772)	(91,800)	(184,110)
Increase in exploration and evaluation assets	(1,573,524)	(2,148,998)	(4,507,072)	(3,617,406)
	(754,499)	(2,721,326)	(2,706,605)	(5,535,431)
Foreign exchange loss on cash and cash equivalents related to translation of foreign operations	10,452	1,804	(6,024)	(684)
(Net decrease) net increase in cash and cash equivalents	(154,841)	(2,457,191)	3,508,615	(4,519,692)
Cash and cash equivalents, beginning of period	1,620,963	10,137,528	4,974,737	12,200,029
Cash and cash equivalents, end of period	\$ 1,466,122	\$ 7,680,337	\$ 1,466,122	\$ 7,680,337

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 1. Reporting entity:

MDN Inc. (the "Company") is a company stationed in Canada, incorporated under Part 1A of the *Québec Companies Act*. The address of the Company's registered office is 1010 de la Gauchetière West, Montréal, Québec, Canada.

The condensed consolidated interim financial statements of the Company as at September 30, 2011 and for the periods ended September 30, 2011 and 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The Group is primarily involved in the exploration of mineral resources. Under a joint venture agreement with African Barrick Gold, the Group also holds an interest of 30% in the excess cash flows generated by the operating activities of the Tulawaka gold mine which is presented as "operating royalties from the Tulawaka mine" in the condensed consolidated interim statements of comprehensive income.

Although the Group has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Group's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Recovery of amounts indicated under mining properties and the related exploration and evaluation assets are subject to the discovery of economically recoverable reserves, the Group's ability to obtain the financing required to complete development and profitable future production or the proceeds from the sale of such assets. At September 30, 2011, management determined that the net carrying value of mining properties represented the best estimate of their net recoverable value. This value may nonetheless be reduced in the future.

## 2. Basis of preparation:

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards, or "IFRS" applicable to the preparation of interim financial statements including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies, from those used in the Company's consolidated financial statements for the three-month period and nine-month period ending September 30, 2010.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## **2. Basis of preparation (continued):**

### **Statement of compliance (continued)**

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of November 5, 2011, the date on which the Board of Directors approved the condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on transition to IFRS.

The condensed consolidated interim financial statements have been prepared following the same basis of preparation as those applied to the condensed consolidated interim financial statements for the period ended June 30, 2011.

The condensed consolidated interim financial statements should be read in conjunction with the Company's Canadian Generally Accepted Accounting Principles ("Canadian GAAP") annual financial statements for the year ended December 31, 2010. The notes disclose IFRS information for the year ended December 31, 2010, not provided in the 2010 annual financial statements.

## **3. Significant accounting policies:**

The condensed consolidated interim financial statements have been prepared following the same accounting policies used in the condensed consolidated interim financial statements for the period ended June 30, 2011.

The accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

## **4. Acquisition of a participation giving the control of Crevier Minerals Inc. ("CMI") and subsequent increase in the participation:**

In February 2009, the Company had the opportunity to evaluate the economic potential of CMI. After analysis, the Company concluded that a progressive acquisition of the project could highly benefit its shareholders.

On January 29, 2010, in accordance with its exclusive option to acquire additional shares of CMI, the Company increased its participation from 28.75% to 38.75% for a consideration of \$950,000 in cash paid to CMI's shareholders and by completing investment in exploration costs for an amount totaling \$2,000,000.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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#### **4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):**

On February 16, 2010, the Company obtained control of CMI by acquiring an additional 28.75% of voting common shares for a cash consideration of \$582,750 and by the issuance of 3,349,777 shares of the Company valued at \$1,641,391. The Company's interest in CMI therefore increased from 38.75% to 67.5%.

The acquisition of the interest in CMI allowed the Company to acquire an advanced project with a national instrument 43-101 known resource and a possibility to be in production in a relatively short period of time.

The acquisition has been recorded as an asset acquisition since CMI does not meet the definition of a business according to IFRS 3, *Business Combinations*.

Net assets acquired were accounted for at their net book value in CMI's books, with the exception of mining properties, which includes the difference between the amount of consideration paid and the book value of net assets acquired, as well as the counterpart of the reevaluation of non-controlling interest at fair value.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):

The major components of assets acquired and liabilities assumed are the following:

Assets acquired:	
Cash	\$ 141,318
Term deposits	215,000
Tax credit receivable	800,086
Sales tax recoverable	85,959
Accrued interest receivable	8,647
Long-term investments	200,000
Mining property <sup>(i)</sup>	7,472,676
Exploration and evaluation assets	1,277,883
Equipment	675
	<hr/>
	10,202,244
Liabilities assumed:	
Accounts payable and accrued liabilities	114,207
Deferred tax liability	136,900
	<hr/>
	251,107
	<hr/>
	9,951,137
Non-controlling interests	2,471,268
	<hr/>
Net assets acquired	\$ 7,479,869
<hr/>	
Consideration paid:	
Acquisition of a participation of 28.75% as of June 1, 2009, in cash	\$ 825,000
Acquisition of an additional participation of 10% on January 29, 2010, in cash	950,000
Investment in exploration costs completed up to January 29, 2010	2,000,000
Share of cumulative losses on investment from June 1, 2009 to February 16, 2010	(19,272)
Convertible debenture held in CMI	1,500,000
Acquisition of an additional participation of 28.75% on February 16, 2010:	
Cash	582,750
Issuance of 3,349,777 common shares <sup>(ii)</sup>	1,641,391
	<hr/>
	\$ 7,479,869
	<hr/>

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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#### 4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):

The net cash flows related to this acquisition for the period are detailed as follows:

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Total consideration paid	\$ 7,479,869
Less:	
Acquisition on June 1, 2009	825,000
Acquisition on January 29, 2010	950,000
Convertible debenture acquired on June 1, 2009	1,500,000
Advances relating to exploration work	2,000,000
Share issuance	1,641,391
Acquired cash	141,318
Plus:	
Share of cumulated losses on investment up to February 16, 2010	19,272
Net cash consideration paid	<u>\$ 441,432</u>

The net cash flows related to the increase in the investment up to January 29, 2010 are detailed as follows:

---

Acquisition of a participation of 28.75% as of June 1, 2009, in cash	\$ 825,000
Convertible debenture held in CMI	1,500,000
Advances relating to exploration work as at December 31, 2009	1,822,500
Investment in a company under significant influence as at December 31, 2009	4,147,500
Acquisition of an additional participation of 10% on January 29, 2010, in cash	950,000
Advances relating to exploration work (\$2,000,000), less advances already made as at December 31, 2009	177,500
Investment in a company under significant influence from January 1, 2010 to January 29, 2010	1,127,500
	<u>\$ 5,275,000</u>

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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#### 4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):

- (i) The mining property value was increased by \$6,871,333.
- (ii) The fair value of common shares issued in consideration was \$0.49 based on the Company's quoted market price as at February 16, 2010.

Following the transaction giving the control to the Company, the options allowing the Company to increase its participation have been modified.

On April 1, 2011, the Company exercised the option to increase its participation in CMI by 5% by investing an additional \$2,000,000 in exploration work by February 2011 and by granting 1,531,863 shares, corresponding to \$625,000, to the non-controlling shareholder. The Company's participation in CMI therefore increased from 67.5% to 72.5%.

The Company also has the option to obtain an additional participation of 15% in CMI by completing an investment in an additional \$2,000,000 of exploration costs by June 2012 and paying \$750,000, in cash or in shares at the Company's option, to the non-controlling shareholder.

#### 5. Temporary investments:

---

	September 30, 2011	December 31, 2010
Guaranteed investment certificates, rate of 1.00%, maturing in April 2012 (rate of 0.25% as at December 31, 2010)	\$ 1,000,000	\$ 1,000,000
Current portion of long-term investments (note 6)	2,786,630	3,406,886
	<hr/> \$ 3,786,630	<hr/> \$ 4,406,886

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# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 6. Long-term investments:

	September 30, 2011	December 31, 2010
Guaranteed investment certificates, fixed rate of 1.25%, maturing in September 2011 and December 2013, redeemable at the option of the Company once a month without penalty	\$ 815,000	\$ 1,026,150
Bonds, rates varying from 3.03% to 4.53%, maturing from February to June 2012 (rates varying from 3.03% to 4.80% at December 31, 2010)	1,971,630	3,712,899
	2,786,630	4,739,049
Current portion of long-term investments	(2,786,630)	(3,406,886)
	\$ —	\$ 1,332,163

## 7. Mining properties:

Mining properties can be detailed as follows:

Properties	Interest at end	December 31, 2010	Additions	Effect of foreign exchange	September 30, 2011
Tanzania:					
Kunga (Viyonza)	65.9%	\$ 976,035	\$ —	\$ —	\$ 976,035
Simba (Isambara)	100	655,645	—	3,507	659,152
Baraka (PL-1561-1562)	90	237,690	23,620	7,014	268,324
Baraka (PL-2479)	100	169,101	—	7,015	176,116
Ikungu	70	144,185	43,632	—	187,817
Nikonga	100	10,290	15,023	—	25,313
Québec:					
Lac Shortt	50	170,461	—	—	170,461
Lespérance	50	78,000	—	—	78,000
Le Tac	50	43,052	—	—	43,052
Isle Dieu	100	24,180	—	—	24,180
Crevier	72.5	7,481,515	—	—	7,481,515
MC Gold	—	50,000	—	—	50,000
Samaqua	100	—	9,525	—	9,525
		\$ 10,040,154	\$ 91,800	\$ 17,536	\$ 10,149,490

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 8. Exploration and evaluation assets:

Exploration and evaluation assets by properties can be detailed as follows:

	December 31, 2010	Tax credits related to resources	Exploration and evaluation costs	Effect of foreign exchange	September 30, 2011
Properties:					
Tanzania:					
Tulawaka	\$ 290,040	\$ -	\$ 15,219	\$ 10,074	\$ 315,333
Simba (Isambara)	4,277,010	-	4,636	138,312	4,419,958
Baraka					
(PL-1561-1562)	278,968	-	976	9,055	288,999
Baraka (PL-2479)	267,084	-	105	8,630	275,819
Kunga (Viyonza)	4,997,323	-	12,799	161,956	5,172,078
Msasa	921,575	-	23,942	30,860	976,377
Ikungu	3,121,819	-	2,259,360	210,369	5,591,548
Nikonga	2,655	-	23,256	1,004	26,915
Québec:					
Lac Shortt	1,371,023	-	-	-	1,371,023
Lespérance	485,188	-	-	-	485,188
Le Tac	885,981	(1,028)	2,937	-	887,890
Des Meloïses	898,991	10	(29)	-	898,972
Isle Dieu	556,307	(618)	1,767	-	557,456
Crevier	3,084,955	(657,566)	2,101,916	-	4,529,305
MC Gold	208,068	(9,968)	26,302	-	224,402
	\$ 21,646,987	\$ (669,170)	\$ 4,473,186	\$ 570,260	\$ 26,021,263

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 9. Share capital:

Authorized:

The Company is authorized to issue an unlimited number of common shares, with no par value.

## 10. Share-based payments:

(a) Share option plan:

Under the share option plan, the Company may grant up to a maximum of 8,000,000 share options to employees, directors and officers to acquire share capital.

The Board of Directors sets the conditions for acquiring the share options according to quantity and exercise prices which they established in accordance with in-force regulations, for a contractual period not to exceed ten years.

Prior to 2010, options were vesting immediately. Since 2010, options are vesting immediately or over a maximum period of 5 years.

The table below presents a summary of the share option plan:

	September 30, 2011		December 31, 2010	
	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
Balance, beginning of period	4,799,438	\$ 0.67	3,884,438	\$ 0.75
Granted	—	—	1,425,000	0.50
Cancelled	(1,670,000)	0.84	(510,000)	0.80
Expired	(509,438)	0.80	—	—
Balance, end of period	2,620,000	\$ 0.55	4,799,438	\$ 0.67
Exercisable options, end of period	2,375,000	\$ 0.56	4,264,438	\$ 0.67

No options were exercised in 2011 (2010 - none).

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 10. Share-based payments (continued):

### (a) Share option plan (continued):

The table below presents supplemental information about the share option plan:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$0.45 - \$0.51	2,160,000	3.14	\$ 0.49
\$0.73 - \$0.79	150,000	2.54	0.73
\$0.80 - \$0.84	100,000	1.29	0.84
\$0.90 - \$0.91	90,000	0.57	0.90
Undetermined <sup>(i)</sup>	120,000	11.29	Undetermined
	2,620,000	3.32	\$ 0.52

<sup>(i)</sup> 200,000 options have been granted and are vesting linearly once a year over a five-year period. The exercise price is then determined when options are vesting.

### (b) Long-term incentive plan ("LTIP"):

On June 1, 2007, the Company had established a LTIP for several directors, members of management and consultants of the Company for a period of three years. According to this incentive plan, they granted shares of the Company if certain performance conditions were met. A total of 1,318,334 shares had been granted and acquired as at June 30, 2010, which represents the final total shares that will be granted according to this incentive plan.

The fair value of the shares granted during 2010 was established at the grant date according to the value of the Company's shares on that date. The average fair value of the shares granted under the incentive plan was \$0.51 per share.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 11. Administrative expenses:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Professional fees	\$ 133,988	\$ 116,380	\$ 515,976	\$ 842,877
Salaries	276,686	233,290	982,676	1,008,521
Share-based payments	3,720	28,563	22,906	408,309
Transfer fees	3,953	12,962	59,837	43,713
Travelling expenses	19,056	29,580	108,896	171,419
Rent	21,440	13,809	87,313	72,084
Office expenses	10,454	4,304	70,330	30,336
Promotion expenses	3,859	4,609	32,966	63,428
Reports to shareholders	2,683	5,525	14,832	19,601
Insurance, taxes and permits	6,970	(7,968)	31,096	24,304
Membership and training	1,595	6,157	26,751	6,157
Telecommunications	5,022	2,772	10,942	10,517
Management fees	180,302	120,133	518,516	362,249
Project development	13,154	16,905	27,458	67,578
Depreciation of equipment	2,405	1,435	5,336	4,239
Depreciation of intangible assets	132,695	-	179,020	-
	\$ 817,982	\$ 588,456	\$ 2,694,851	\$ 3,135,332

## 12. Net finance income:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Gain on sale of investments	\$ (4,842)	\$ -	\$ (14,913)	\$ -
Interest income on cash and cash equivalents and temporary and long-term investments	(17,583)	(27,285)	(123,718)	(98,947)
Net foreign exchange gain	(1,163)	-	-	-
Finance income	(23,588)	(27,285)	(138,631)	(98,947)
Interest and bank charges	5,513	4,980	36,475	15,091
Accretion expense on other long-term liability	7,307	8,971	23,204	28,076
Net foreign exchange loss	-	85,746	2,046	99,660
Finance expense	12,820	99,697	61,725	142,827
Net finance income	\$ (10,768)	\$ 72,412	\$ (76,906)	\$ 43,880

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 13. Financial instruments and financial risk management:

### Financial instruments

#### (a) Fair value:

Certain of the Group's accounting policies and disclosures require the determination of fair value for financial assets and financial liabilities as well as non-financial assets and non-financial liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

Cash and cash equivalents, accounts receivable and trade accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

The fair value of the temporary investments, long-term investments and other long-term liability is based on quoted market price when applicable or obtained by discounting future cash flows or forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments available on capital markets. The following table summarizes the book value and fair value of those instruments:

	September 30, 2011		December 31, 2010	
	Book value	Fair value	Book value	Fair value
Temporary investments	\$ 3,786,630	\$ 3,789,513	\$ 4,406,886	\$ 4,406,886
Long-term investment	–	–	1,332,163	1,332,163
Other long-term liability	174,579	174,579	226,375	226,375

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 13. Financial instruments and financial risk management (continued):

### Financial risk management

#### (b) Foreign exchange risk:

The Company receives royalty revenues and incurs prospecting and evaluation costs as well as certain other fees in US dollars, and is consequently exposed to foreign exchange risk.

The balances denominated in foreign currency are as follows:

	September 30, 2011	December 31, 2010
	US\$	US\$
Cash	124,870	176,492
Accounts receivable	4,074,232	–
Trade accounts payable and accrued liabilities	812,746	337,827

As at September 30, 2011, if the exchange rate (CA\$/US\$) had increased or decreased by 5%, the total results would have been higher or lower by approximately \$250,060 (approximately \$25,720 as at December 31, 2010).

#### (c) Credit risk:

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations, and it arises primarily from the Company's accounts receivable.

The Company also has credit risk relating to cash, cash equivalents and temporary investments. The Company manages its risk by generally dealing with major North-American institutions and investing only in instruments having an excellent credit rating.

The carrying amounts of financial assets, as disclosed in the "financial instruments - fair value" represent the Company's maximum credit exposure.

#### (d) Liquidity risk:

The Company manages its liquidity risk by using budgets allowing to determine the necessary funds required to meet its exploration plans. Moreover, the Company makes sure that the working capital is sufficient to meet its current obligations.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 13. Financial instruments and financial risk management (continued):

### Financial risk management (continued):

#### (d) Liquidity risk (continued):

As at September 30, 2011, the Company has accounts receivable of \$5,958,241 and trade accounts payable and accrued liabilities of \$1,397,321 coming to maturity within the next twelve months.

As at September 30, 2011, the Company was holding cash and cash equivalents and temporary investments totaling \$5,252,752. Given the Company's available liquidities as compared with the timing of the payments of liabilities, management assesses that the Company's liquidity risk is low.

#### (e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company holds the majority of its cash and cash equivalent balance in interest-bearing accounts which are therefore only exposed to future cash flow fluctuations coming from changes in market interest rates. Temporary investments and long-term investments consist of bonds and guaranteed investment certificates and are classified as loans and receivables. A fluctuation of 100 basis points on market interest rate would not have an impact on the financial results of the Company.

## 14. Related parties:

The Company has no ultimate parent.

### Transactions with key management personnel

#### Loans to key management personnel

In 2010, the Company provided a loan to two of its key managers in the amount of \$62,400, which is included in accounts receivable as at September 30, 2011 and December 31, 2010. This loan, bearing interest at 1% per year, is reimbursable at all times either in part or in full and will mature on December 31, 2012. If the borrower ceases to be an employee of the Company, the loan will become due immediately.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 14. Related parties (continued):

### Transactions with key management personnel (continued):

Key management personnel compensation

Key management personnel compensation comprises:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Short-term employee benefits	\$ 189,969	\$ 179,713	\$ 575,736	\$ 552,008
Share-based payments	3,720	14,130	22,906	204,150

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### Other related party transactions

In relation with the acquisition of control of CMI, the Company paid \$459,000 during the first quarter of 2010 and issued 1,488,790 shares to a shareholder of CMI who became the president and director of the Company, and to a shareholder of CMI who was already a director of the Company, in consideration for the 600,000 shares they held in CMI (representing 15% of the outstanding shares of CMI). Furthermore, during 2010, the Company paid professional fees of \$18,000 to a director.

These transactions, made in the normal course of business, were measured at the exchange amount, which is the amount established and agreed to by the parties.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 15. Statement of cash flows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Changes in non-cash working capital items:				
Accounts receivable and mining taxes receivable	\$ (2,090,287)	\$ 704,698	\$ (3,559,762)	\$ 3,418,130
Prepaid expenses	(12,030)	(16,975)	6,097	466
Trade accounts payable and accrued liabilities	(372,371)	240,382	202,692	33,741
Foreign currency translation of foreign operations	173,706	(25,030)	178,591	(25,198)
	\$ (2,300,982)	\$ 903,075	\$ (3,172,382)	\$ 3,427,139
Operations without impact on cash related to:				
Operating activities:				
Change in accounts payable and accrued liabilities related to exploration and evaluation assets	\$ 245,987	\$ 432,039	\$ 33,885	\$ 420,210
Investing activities:				
Change in exploration and evaluation assets for which tax credits related to resources are included in accounts receivable	37,016	2,209,540	669,171	2,369,812

## 16. Contingencies:

### *Communication with Tanzania Revenue Authority:*

On May 10, 2011, the Company received a request from the Tanzania Revenue Authority ("TRA") to file certain documents in respect of the Tulawaka mine operation and the legal structure of the Company's share in the royalties from this mining property. This request included also preliminary calculations made by TRA presuming that the Company owes substantial amounts to the Tanzanian government related to corporate taxes on gold sales from the Tulawaka mining property and other various withholding taxes for the fiscal years 2004 to 2010. The Company subsequently sent the requested information to TRA and discussions are presently in progress in order to clarify this situation. Pursuant to the Joint Venture Agreement between the Company, Pangea Goldfields Inc. and Pangea Minerals Limited (the "Operator"), the Operator cannot distribute the cash flow from the Tulawaka mine before first paying taxes to the TRA. The Company has obtained a confirmation from the Operator that since the beginning of the production at the Tulawaka Mine in 2004, the Operator has paid the taxes due to the TRA.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 16. Contingencies (continued):

Since August, 2011, the Operator has delegated its auditors to confirm its affirmations with the TRA and help the Company with the clarification of the request. Meetings with the various parties are foreseen for the month of November, 2011.

No provisions have been recorded in the Company's financial statements as at September 30, 2011 as management is in the opinion that amounts included in this communication are not founded and that the Company does not owe any taxes to the TRA in respect of these mining operations. Any amounts that may become payable related to this contingency could have a negative impact on the Company.

## 17. Subsequent events

After the end of the quarter, the company has undertaken steps to raise flow-through shares through a private investment for a maximum value of \$600,000.

## 18. Explanation of transition to IFRS:

For this note, the term "Canadian GAAP" denotes Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

As stated in note 2, the condensed consolidated interim financial statements of the Group have been prepared in accordance with IFRS.

IFRS accounting policies have been applied after establishing the interim financial statements for the three-month period and nine-month period ending September 30, 2011, with information comparing to the interim financial statements for the three-month and nine-month periods ending September 30, 2010.

The tables and notes below explain the impact that the transition from Canadian GAAP to IFRS has had on the Group's financial situation, financial performance and cash flow.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

## 18. Explanation of transition to IFRS (continued):

Reconciliation of equity:

	Note	September 30, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents		\$ 7,680,337	\$ –	\$ 7,680,337
Temporary investments	(b)	4,401,960	(55,389)	4,346,571
Accounts receivable	(b)	1,247,773	55,389	1,303,162
Mining taxes receivable		426,430	–	426,430
Prepaid expenses		31,557	–	31,557
<b>Total current assets</b>		<b>13,788,057</b>	<b>–</b>	<b>13,788,057</b>
Non-current assets:				
Long-term investments		1,370,175	–	1,370,175
Mining properties	(a), (c)	10,470,704	(285,292)	10,185,412
Exploration and evaluation asset	(c)	20,385,190	(474,430)	19,910,760
Equipment	(c)	47,474	(3,644)	43,830
Intangible asset		179,020	–	179,020
Deferred tax assets		2,096,813	–	2,096,813
<b>Total non-current assets</b>		<b>34,549,376</b>	<b>(763,366)</b>	<b>33,786,010</b>
<b>Total assets</b>		<b>\$ 48,337,433</b>	<b>\$ (763,366)</b>	<b>\$ 47,574,067</b>
<b>Liabilities and Equity</b>				
Current liabilities:				
Trade accounts payable and accrued liabilities		\$ 926,971	\$ –	\$ 926,971
<b>Total current liabilities</b>		<b>926,971</b>	<b>–</b>	<b>926,971</b>
Non-current liabilities:				
Other long-term liabilities		242,805	–	242,805
Deferred tax liabilities	(a)	2,780,711	(1,866,601)	914,110
<b>Total non-current liabilities</b>		<b>3,023,516</b>	<b>(1,866,601)</b>	<b>1,156,915</b>
Equity:				
Share capital		62,823,630	–	62,823,630
Warrants		74,219	–	74,219
Contributed surplus		6,300,888	–	6,300,888
Accumulated other comprehensive income	(c)	–	(440,736)	(440,736)
Deficit	(c)	(25,722,483)	25,882	(25,696,601)
<b>Total equity attributable to the equity holders of the Company</b>		<b>43,476,254</b>	<b>(414,854)</b>	<b>43,061,400</b>
Non-controlling interests	(a)	910,692	1,518,089	2,428,781
<b>Total equity</b>		<b>44,386,946</b>	<b>1,103,235</b>	<b>45,490,181</b>
<b>Total liabilities and equity</b>		<b>\$ 48,337,433</b>	<b>\$ (763,366)</b>	<b>\$ 47,574,067</b>

# MDN INC.

## Notes to Condensed Consolidated Interim Financial Statements, Continued (Unaudited)

Periods ended September 30, 2011 and 2010

### 18. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the three-month period and nine-month period ended September 30, 2010:

	Note	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue:							
Operating royalties from the Tulawaka mine		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administrative expenses	(d)	602,407	(13,951)	588,456	3,178,499	(43,167)	3,135,332
Income (loss) before net finance income and income taxes		(602,407)	13,951	(588,456)	(3,178,499)	43,167	(3,135,332)
Net finance income (expense):							
Finance income	(c)	(33,015)	5,730	(27,285)	(134,195)	35,248	(98,947)
Finance expense	(c), (d)	114,702	(15,005)	99,697	160,790	(17,963)	142,827
		81,687	(9,275)	72,412	26,595	17,285	43,880
Income (loss) before income taxes		(684,094)	23,226	(660,868)	(3,205,094)	25,882	(3,179,212)
Income taxes recovery:							
Current taxes		-	-	-	-	-	-
Deferred taxes		(157,602)	-	(157,602)	(27,313)	-	(27,313)
		(157,602)	-	(157,602)	(27,313)	-	(27,313)
Net (loss) gain		(526,492)	23,226	(503,266)	(3,177,781)	25,882	(3,151,899)
Other comprehensive income for the period:							
Gain on foreign currency translation differences of foreign operations	(c)	-	(355,619)	(355,619)	-	(167,676)	(167,676)
Net comprehensive (loss) income for the period		\$ (526,492)	\$ (332,393)	\$ (858,885)	\$ (3,177,781)	\$ (141,794)	\$ (3,319,575)
Net (loss) income attributable to:							
Owners of the Company		\$ (516,905)	\$ 23,226	\$ (493,679)	\$ (3,135,294)	\$ 25,882	\$ (3,109,412)
Non-controlling interests		(9,587)		(9,587)	(42,487)		(42,487)
Total comprehensive (loss) income attributable to:							
Owners of the Company		\$ (516,905)	\$ (332,393)	\$ (849,298)	\$ (3,135,294)	\$ (141,794)	\$ (3,277,088)
Non-controlling interests		(9,587)		(9,587)	(42,487)		(42,487)
Basic and fully diluted net loss per share		\$ (0.005)	\$ (0.005)	\$ (0.005)	\$ (0.032)	\$ (0.032)	\$ (0.032)

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 18. Explanation of transition to IFRS (continued):

### Material adjustments to the statement of cash flows for 2010

Interests received have been presented separately in the body of the *Statement of Cash Flows*, within operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

### Notes to the reconciliations

#### (a) Acquisition of CMI:

As explained in note 4, on February 16, 2010, the Company obtained the control of CMI. Under Canadian GAAP, CMI was not considered to be a business and this acquisition was not accounted for as a business combination, but rather as an acquisition of net assets. However, since the Company took control over CMI, this latter was considered a subsidiary whose assets and liabilities were consolidated. The accounting treatment is compliant with IFRS, except for the following two differences:

- Non-controlling interests were accounted for at the pro rata share of the net book value of CMI's net assets while under IFRS they are accounted for at their fair value at the date on which the Company obtained control of CMI. This difference resulted in an increase in non-controlling interest of \$1,518,089, the counterpart being an increase in mining properties for the same amount.
- Deferred tax liabilities were recorded under Canadian GAAP as a result of this transaction, while under IFRS a deferred tax liability (asset) is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. Therefore, the deferred tax liabilities of \$1,866,601 recorded under Canadian GAAP were reversed under IFRS with a corresponding decrease in mining properties.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 18. Explanation of transition to IFRS (continued):

### Notes to the reconciliations (continued):

#### (b) Classification of other financial instruments:

Cash, cash equivalents, temporary investments and long-term investments do not meet the criteria for the fair value through profit and loss designation under IFRS, as they are not managed on a fair value basis but yield to maturity basis, and as they are not traded on an active market. Under Canadian GAAP, they met the classification of financial assets designated as held for trading.

As a result of the IFRS, cash, cash equivalents, temporary investments and long-term investments are classified as loans and receivables. With regard to cash and cash equivalents, this change in classification does not have a financial impact on the consolidated financial statements as the fair value of those instruments approximates cost; therefore, this is only a disclosure difference.

With regard to temporary investments and long-term investments, this change resulted in an immaterial impact. However, reclassification entries were recorded in the condensed consolidated interim statements of financial position and the condensed consolidated interim statements of comprehensive income.

Interests receivable under Canadian GAAP were presented in temporary investments in the amounts of \$55,389 as at September 30, 2010. Under IFRS, this amount was reclassified in accounts receivable.

The differences in fair value of items held for trading with ending balances of \$5,730 and \$35,248 for the three-month and nine-month periods ending September 30, 2010, respectively, had been recorded in accordance with Canadian GAAP. In accordance with IFRS, these amounts have been reclassified against the net finance expense (income) in the condensed consolidated interim statement of comprehensive income.

#### (c) Change of functional currency of MDN Tanzania Ltd.:

The foreign currency adjustments related to an integrated foreign operation under Canadian GAAP. IFRS do not distinguish between integrated and self-sustaining foreign operations and the current rate method is required to be applied to all entities whose functional currency is different from the presentation currency, resulting in an adjustment on transition to IFRS.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended September 30, 2011 and 2010

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## 18. Explanation of transition to IFRS (continued):

### Notes to the reconciliations (continued):

#### (c) Change of functional currency of MDN Tanzania Ltd. (continued):

As at September 30, 2010, this change resulted in a currency translation account of \$440,735, recorded in accumulated other comprehensive income. Losses of \$355,619 and \$167,676 were recorded in other comprehensive income for the three-month period and nine-month period ended September 30, 2010, respectively.

Also, gains on foreign exchange of \$23,226 and \$25,882 for the three-month period and nine-month period ending September 30, 2010, respectively, were recorded from net finance expense (income) to other comprehensive income. These are the only adjustments that have an impact on the deficit as at September 30, 2010.

The assets as at September 30, 2010 were adjusted as follows:

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	September 30, 2010
Mining properties	\$ 63,220
Exploration and evaluation assets	(474,430)
Equipment	(3,644)
	<hr/>
	\$ (414,854)

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#### (d) Reclassification in the statement of comprehensive income:

Interest received on bank accounts, bank charges, accretion of the other liability and foreign exchange losses were reclassified within the finance income and expense line items under IFRS, while they were presented under revenue, administrative expenses and other separate line items under Canadian GAAP.